

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

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NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06

SIL-01 OMB-01 NSC-07 SS-20 STR-08 CEA-02 PA-04 PRS-01

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TO SECSTATE WASHDC IMMEDIATE 5809

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USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

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DEPT OF TREASURY WASHDC

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SUBJECT: RUMORE GOVERNMENT PUTS ITALIAN ECONOMIC STABILIZATION
PROGRAM INTO EFFECT

REF A. ROME 8551 DATED JUNE 20, 1974

B. ROME 8996 DATED JUNE 28, 1974

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1. SUMMARY. ON SATURDAY, JULY 6, COUNCIL OF MIN-

ISTERS APPROVED FOUR DECREE LAWS WHICH PUT INTO EFFECT AS OF SUNDAY, JULY 7, FISCAL PACKAGE AND RELATED MEASURES CURCIAL TO ITALIAN ECONOMIC STABILIZATION PROGRAM. FISCAL PACKAGE CONTAINS WIDE RANGE OF INCREASES IN DIRECT AND INDIRECT TAXES AND PROVISIONS TO IMPROVE TAX COLLECTION AND REDUCE TAX EVASION. STEPS WERE ALSO TAKEN TO INCREASE PUBLIC UTILITY AND TRANSPORTATION CHARGES AS WELL AS TO ASSIST DEBT-RIDDEN HOSPITALS AND PROMOTE AGRICULTURAL DEVELOPMENT. PRESS DESCRIBES FISCAL PACKAGE AS UNPRECEDENTED IN ITS SEVERITY AND NOTES BOTH CONSUMER AND LABOR UNION PREOCCUPATION WITH THE SEVERE ADDITIONAL DEMANDS ON FAMILY BUDGETS. END SUMMARY.

2. FISCAL PACKAGE. COUNCIL OF MINISTERS ON JULY 6 APPROVED DECREE LAWS WHICH PUT INTO EFFECT FISCAL MEASURES DESIGNED TO REDUCE INTERNAL DEMAND, CORRECT BALANCE OF PAYMENTS DISEQUILIBRIUM AND PROVIDE NEW IMPETUS FOR PRODUCTIVE INVESTMENT. PRIME MINISTER RUMOR INTENDS TO SUBMIT THESE DECREE LAWS TO PARLIAMENT (WHICH MUST APPROVE THEM WITHIN 60 DAYS) FOR URGENT CONSIDERATION AS SOON AS POSSIBLE, PROBABLY EARLY THIS WEEK (JULY 8). SINCE PROGRAM HAS ALREADY RECEIVED APPROVAL FROM PARLIAMENT, AT LEAST IN ITS GENERAL OUTLINE, DECREE LAWS WILL PROBABLY BE APPROVED BEFORE SUMMER RECESS.

3. FIRST DECREE LAW IS DESIGNED PRIMARILY TO REDUCE FISCAL EVASION AND IMPROVE TAX COLLECTION APPARATUS. IN PARTICULAR, IT PROVIDES FOR: (A) ELIMINATION OF ALL EXEMPTIONS FROM INDIRECT TAX (IVA); (B) APPLICATION OF IVA TO ALL RENDERING OF SERVICES BY ARTISTS AND PROFESSIONALS; (C) REDUCTION IN TIME LIMIT TO ONE WEEK FOR SUBMITTING INVOICES FOR IVA; (D) GREATER USE OF SPOT CHECKING BY TAX OFFICE OF INCOME TAX RETURNS; (E) EXTENSION UNTIL END OF 1975 OF TIME PERIOD IN WHICH GOVERNMENT CAN ASSESS TAXES AGAINST CONTESTED RETURNS OR CHALLENGE VALIDITY OF TAX RETURNS; (F) INCREASE IN PERSONNEL OF GOVERNMENT AGENCIES CHARGED WITH TAX ASSESSMENT AND COLLECTION.

4. SECOND DECREE INVOLVES DIRECT TAXES: (A) EXTENSION LIMITED OFFICIAL USE

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OF ELIGIBILITY FOR TAX EXEMPTION TO WIDER NUMBER OF LOW INCOME WORKERS; (B) INCREASE IN PERSONNEL OF GOVERNMENT AGENCIES CHARGED WITH TAX ASSESSMENT AND COLLECTION.

4. SECOND DECREE VOVOLVES DIRECT TAXES: (A) EXTENSION OF ELIGIBILITY FOR TAX EXEMPTION TO WIDER NUMBER OF LOW INCOME WORKERS; (B) INCREASE FROM 10 PERCENT TO 20

PERCENT IN ADVANCE PAYMENT OF INCOME TAX ON SELF-EMPLOYED WORKERS (PROFESSIONSL, ARTISTS, ARTISANS, ETC.); (C) INCREASE FROM 25 PERCENT TO 30 PERCENT OF CORPORATE INCOME TAX; (D) INCREASE IN TAXABLE BASE OF REAL ESTATE INCOME FOR ASSESSMENT OF PROPERTY TAXES; (E) FOR 1974 ONLY, A TAX WILL BE LEVIED ON BOTH COMMERCIAL AND RESIDENTIAL REAL ESTATE RANGING FROM 5,000 LIRE TO 50,000 LIRE, PER ROOM. THIS TAX WILL HAVE TO BE PAID BEFORE END OF 1974.

5. THIRD DECREEE LAW CONCERNS INCREASES IN INDIRECT, REGISTRATION, AND STAMP TAXES: (A) INCREASE IN IVA ON LUXURY ITEMS FROM 18 TO 30 PERCENT, ON MEAT FROM 6 TO 18 PERCENT, ON CONSTRUCTION PRODUCTS FROM 3 TO 6 PERCENT; IMPOSITION OF 12 PERCENT RATE ON PREVIOUSLY EXEMPT PLEASURE BOATS AND INCREASE FROM 12 TO 30 PERCENT ON BOATS ALREADY SUBJECT TO TAXATION; (B) INCREASE IN REGISTRATION TAX ON SALE OF REAL ESTATE FROM 5 TO 8 PERCENT OF PROPERTY VALUE; (C) INCREASE IN STAMP TAX ON DOCUMENTS FROM 500 TO 700 LIRE;

6. FOURTH DECREEE LAW PROVIDES RO 40 PERCENT PER LITER INCREASE IN GASOLINE, AS A RESULT OF WHICH SUPER WILL COST 300 AND NORMAL 287 LIRE PER LITER. AT SAME TIME, FOREIGN TOURISTS WILL BE OFFERED OPPORTUNITY OF BUYING CHEAPER GAS AT 220 LIRE PER LITER. IN ADDITION, A ONE-TIME TAX ON AUTOMOBILES AND MOTORCYCLES RANGING FROM 6,000 TO 100,000 LIRE WILL BE IMPOSED, DEPENDING UPON DISPLACEMENT OF ENGINE, WHICH MUST BE PAID WITHIN 30 DAYS.

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TO SECSTATE WASHDC IMMEDIATE 5810
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USMISSION NATO
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7. IN ADDITION TO THESE DECREE LAWS CONCERNING TAXATION, ADDITIONAL DECREES WERE ISSUED CONCERNING PUBLIC ASSISTANCE TO HOSPITALS AND FINANCING FOR AGRICULTURAL DEVELOPMENT. IN AN EFFORT TO ASSIST HOSPITALS WHICH ARE PRESENTLY EXPERIENCING SUCH SERIOUS ECONOMIC DIFFICULTIES THAT THEY HAVE NOT BEEN ABLE TO MEET THEIR BILLS, AN INCREASE IN GOVERNMENT CONTRIBUTION FOR PUBLIC HEALTH PAYMENTS FOR WORKERS WAS AUTHORIZED. ANOTHER DECREE LAW
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AUTHORIZES GRANTING OF ALREADY BUDGETED FUNDS TO REGIONAL ENTITIES CHARGED WITH AGRICULTURAL DEVELOPMENT.

8. ALSO ON JULY 6 INTERMINISTERIAL PRICE COMMITTEE APPROVED NEW SCHEDULE OF UTILITY RATES WHICH IS DESIGNED TO EXACT LARGEST CHARGES ON HEAVY USERS OF ELECTRICITY. PROCEEDS HAVE BEEN EARMARKED FOR USE IN MEETING HIGHER COSTS OF FUEL OIL. AS FAR AS UTILITY RATES ON WATER AND GAS ARE CONCERNED, AS WELL AS PUBLIC TRANSPORTATION COSTS; AUTHORIZATION WILL BE GIVEN TO REGIONAL GOVERNMENTS TO INCREASE TARIFFS TO ALLEVIATE LOCAL BUDGET DIFFICULTIES.

9. CREDIT PROGRAM. THERE HAS EVIDENTLY BEEN NO CHANGE IN CREDIT PROGRAM AS AGREED AMONG FINANCE MINISTERS END OF JUNE DESCRIBED REF A.

10. INITIAL PUBLIC REACTION. ALTHOUGH ECONOMIC STABILIZATION PROGRAM HAS BEEN FOCUS OF ATTENTION FOR WEEKS AND GENERAL CONTENTS OF PACKAGE HAVE BEEN PUBLIC KNOWLEDGE, ISSUANCE

OF DECREE LAWS PUTTING PROGRAM INTO EFFECT IS CLEARLY RUDE SHOCK TO MANY ITALIANS. PRESS REPORTS BOTH CONSUMERS AND UNION PREOCCUPATION WITH FLOOD OF FISCAL, PARAFISCAL, AND UTILITY INCREASES. EDITORIAL COMMENT, WHILE RECOGNIZING NEED FOR TOUGH MEASURES IN FACE OF SEVERE ECONOMIC SITUATION, EXPRESSES CONCERN THAT POSSIBLE DEFLATINARY IMPACT OF PROGRAM NOT IMPEDE CHANCE FOR REGAINING ECONOMIC HEALTH AND ACHIEVING PRODUCTIVE GROWTH. ALTHOUGH LABOR UNIONS AFTER JULY 4 MEETINGS WITH GOVERNMENT EXPRESSED NEGATIVE VIEW OF MEASURES AS INEQUITABLE, THEY ALSO CAREFUL TO MAKE CLEAR THEY CONSIDERED THAT GOVERNMENT EFFORTS IN AREA OF AGRICULTURE AND INVESTMENT IN SOUTH PROVIDED BASIS FOR CONTINUING DISCUSSION. HOWEVER, WHILE UNION LEADERS HAVE MADE CLEAR INTENTION TO HOLD OFF ON GENERAL STRIKE ACTIVITY UNTIL FALL, SERIES OF REGIONAL STRIKES HAVE BEEN SCHEDULED DURING FOLLOWING WEEKS.

11. COMMENT. AFTER WEEKS OF DELIBERATION, CONSULTATION, AND NATIONAL SOUL-SEARCHING, RUMOR GOVERNMENT HAS PUT INTO EFFECT ECONOMIC STABILIZATION PROGRAM DESIGNED TO PULL ITALY OUT OF ECONOMIC CRISIS. GIVEN DISARRAY IN CENTER-LEFT COALITION AND CRITICISM FROM LABOR UNIONS, LIMITED OFFICIAL USE

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FINAL PROGRAM IS SURPRISINGLY COMPREHENSIVE AND TOUGH. NO DOUBT GOI HOPES THAT BITING BULLET NOW WILL SHORTEN PERIOD OF SEVERE DOMESTIC SACRIFICE AS WELL AS ASSURE BOTH US AND EC PARTNERS THAT ITALY IS GOOD RISK FOR ECONOMIC ASSISTANCE. CONSIDERABLE EFFORT HAS GONE INTO MAKING NEW TAX LEVIES COLLECTABLE AND CLOSING LOOPHOLES IN EXISTING TAX LAWS. WHETHER INTRICATE PROGRAM CAN BE CARRIED OUT EFFECTIVELY REMAINS PROBLEMATIC. IN SPITE OF RUMOR'S CALL FOR PUBLIC SACRIFICES, AVERAGE ITALIAN IS NOTORIOUSLY RELUCTANT TO EXPERIENCE DECLINE IN PRESENT CONSUMPTION LEVEL FOR ABSTRACT CONCEPT OF NATIONAL WELFARE. IN ADDITION, HE IS ADEPT AT CIRCUMVENTING TAXES WHEREEVER POSSIBLE. EFFECTIVENESS OF STABILIZATION PROGRAM IS ALSO HEAVILY DEPENDENT ON TIME FACTOR UNLESS POSITIVE RESULTS CAN BE SEEN BY MID-AUTUMN, COLLECTIVE SUPPORT FOR PROGRAM, INCLUDING LOW PROFILE OF LABOR UNIONS, WILL FADE RAPIDLY IN FACE OF HIGHER PRICES AND DIMINISHING DISPOSABLE FAMILY INCOMES. BEYOND IMMEDIATE QUESTION AS TO WHETHER 3,000 BILLION LIRE CAN BE RAISED WITHIN NEXT TWELVE MONTHS IS LONGER TERM PROBLEM OF SHIFTING TAX REVENUES INTO PRODUCTIVE AREAS AND EASING CREDIT RESTRAINTS WHILE PRESERVING ECONOMY FROM DUAL ILLS OF INFLATION AND RECESSION. BEAUDRY

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